

Financing Transit-Oriented Apartments With FHA Mortgage Insurance

Virginia Governor's Housing Conference

September 15, 2005

MCF Investment Company, LLC

AGM Financial Services, Inc.

Mosaic at Metro

- **Location: Prince George's County, Maryland**
- **Project Components**
 - **Office**
 - **Retail**
 - **Residential**
- **Residential Community**

Mosaic at Metro

- **Mid City Investment Company, LLC**
- **Washington Metropolitan Area Transit Authority**
- **Master Developer**
- **U.S. Department of Housing and Urban Development (FHA)**
- **Prince George's County**
- **AGM Financial Services, Inc.**

Mosaic at Metro



Prince George's Metro Stop, Maryland

Mosaic at Metro



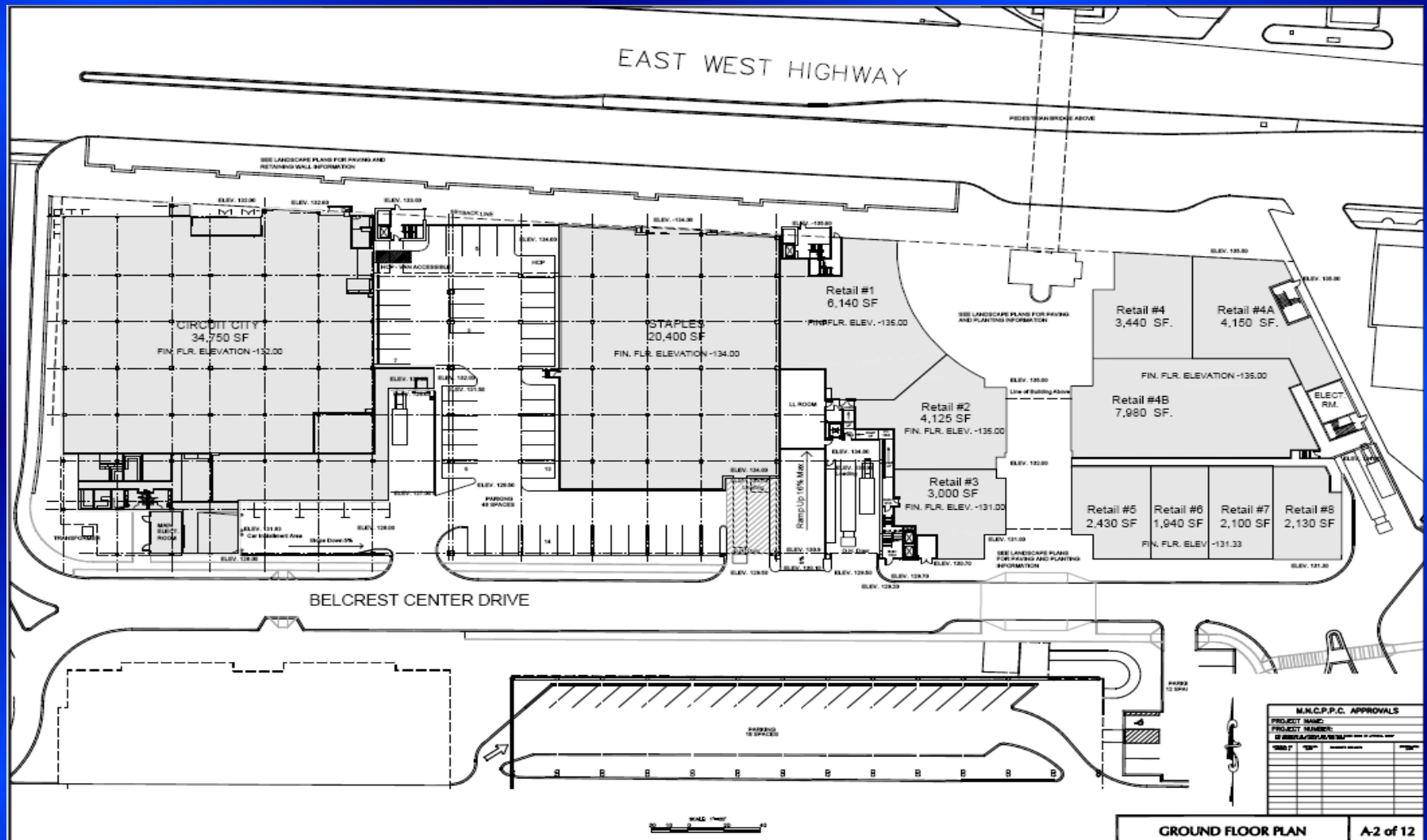
Prince George's Metro Stop, Maryland

Mosaic at Metro



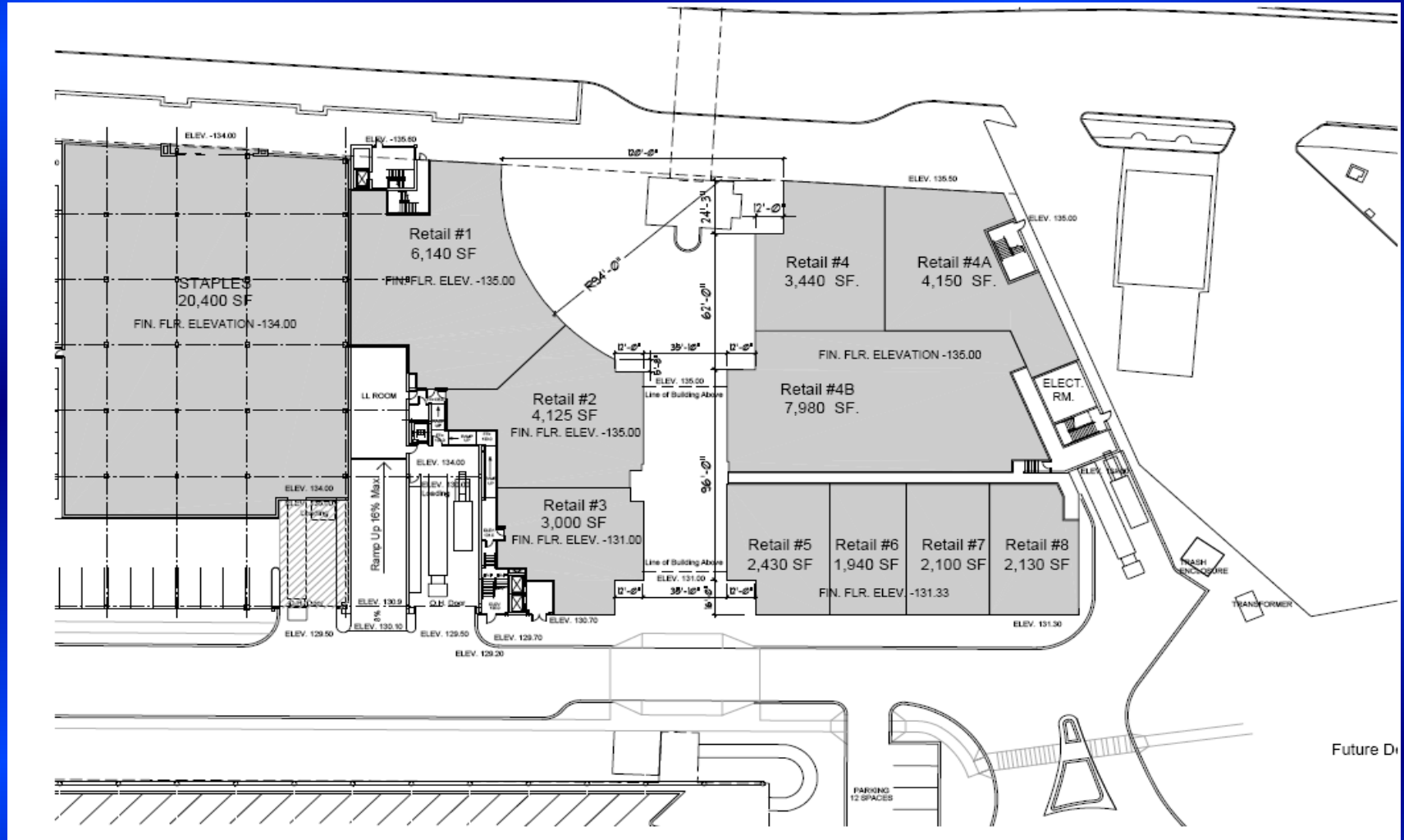
Prince George's Metro Stop, Maryland

Mosaic at Metro



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Prince George's Metro Stop, Maryland

FHA Program

FHA Mortgage on a Transit Site is a Normal Insured Mortgage:

- **40-year**
- **Fixed Rate**
- **Non-recourse**
- **Construction and Permanent**

FHA Program

- **NEW! One-Stage Processing!**
- **No resizing at Conversion to Permanent**
- **AAA-rated, Lowest Interest Rate**
- **No Value Test**

FHA Program

Timing is Shorter Now:

- **60-90 Days: Assemble Application**
 - Appraisal, Market Study, Environmental, Plans/Costs with Review, Survey, Management, Mortgage Credit
 - Form of Ground Lease
- **60 Days: HUD Review**
- **30 Days: Close**

FHA Program

Loan Size is Least Of:

- **90% of Costs and Value of Leasehold Estate**
- **90% of NOI capped by Debt Service Constant**
- **Costs Less Secondary Sources**
- **Statutory Limits**

Ground Leases

- **Transit Provider is Landlord**
- **Landlord Seeks Annual Rent, High Quality Product, and More Riders**

Ground Leases

- **FHA Takes Real Estate Risk**
- **FHA Seeks High Quality Product, Control of Construction, Control in a Default**

Ground Leases

- **FHA May Become the Tenant if Tenant Defaults either the Mortgage or the Ground Lease**
- **FHA (Federal Government) Does NOT Enter Into Open-Ended Contracts**

Ground Leases

- **Who Controls Construction Draws?
FHA**
- **Who Controls Inspections?**
 - **FHA for Apartments**
 - **Landlord for Risk to Transit
Equipment or Riders**

Ground Leases

- **What are the Controlling Legal Documents?**
 - **FHA Form 2070: 3 pages**
 - **FHA Mortgage: Ground Lease Payments are Paid Before Interest and Principal**
 - **Landlord's Ground Lease: 96 pages**

Ground Leases

- **Who Controls Insurance? FHA**
- **What Sources Indemnify Landlord?
Insurance Proceeds and Surplus
Cash**

Ground Leases

- **Who Controls Plans and Specs?**
First Landlord, then FHA
- **Who Controls Change Orders?**
First Landlord, then FHA

Ground Leases

- **Who is Named on Payment and Performance Bonds? FHA**
- **What Sources Pay Landlord's Attorney Fees in a Dispute? Surplus Cash**

Ground Leases

- **Acceptable Payments to Landlord are Based on Property's Ability to Pay**
 - **Fixed Dollar Payment -- Not More Than “as is” Value of Site x Interest Rate**
 - **Fixed Percentage of Collections or Net Cash Flow -- Not More Than “as is” value of Site x 90% of Interest Rate**

Ground Leases

- **Payments are Paid from Cash Available for Debt Service**
- **Payments from Cash Flow are also Acceptable**

Ground Leases

- **Unacceptable Payments to Landlord are Based on Outside Factors**
 - **Fixed Dollar Payments Graduating Over Time**
 - **COLA Increases**
 - **Increases Based on Future Appraisals**

Ground Leases

- **If Tenant Defaults on Insured Mortgage**
 - **Private Landlord: FHA May Convert to Fee Simple at Known Dollar Amount**
 - **Public Landlord: FHA Waives Right to Convert**

FHA Program

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FHA Program

Value of Leasehold Estate

- Value of Land in Fee Simple \$8,000,000
- Value of Leased Fee (\$3,000,000)
- Value of Leasehold Estate \$5,000,000
- 90% of Land Value \$4,500,000

FHA Program

Ground Lease Paid from 90% of NOI

➤ Net Operating Income	\$3,500,000
➤ 90% of NOI	\$3,150,000
➤ Ground Lease Payment	<u>(150,000)</u>
➤ Cash Available for DS	\$3,000,000
➤ Debt Service Mortgage	\$45,185,800
➤ 5.5%, 40 years, .45 MIP, DSC 6.6%	

The Market

- **Ride to Work, Shops, Entertainment**
- **Singles or Couples Without Children**
- **Density Through 0BR, 1BR, and 2BR**
- **High-end Community Space**
- **Compete with Nearby Apartments**
- **Compete with Other Metro Stops**

The Market

➤ **Neighborhood Amenities:**

- **Giant**
- **The Mall**
- **University Town Center**
- **U of MD**

The Market

- **Value of Living at Metro?**
- **Value of Living Inside the Beltway**
- **Cost of Parking?**
- **Cost of Metro?**
- **Noise and Vibration a Factor?**